**DUN & BRADSTREET**

# SUBMISSION TO THE SENATE STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

## INQUIRY INTO EXPOSURE DRAFTS OF THE AUSTRALIAN PRIVACY AMENDMENT LEGISLATION - CREDIT REPORTING

**MARCH 2011**

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Dun & Bradstreet welcomes the opportunity to respond to the credit reporting provisions of the Committee's inquiry into Exposure Drafts of the Australian Privacy Amendment Legislation.

Dun & Bradstreet is the world's leading provider of business-to-business credit, marketing and purchasing information and receivables management services, managing the world's most valuable commercial database with information on more than 175 million companies. Information is gathered in 209 countries, in 95 languages or dialects, covering 186 monetary currencies. The database is refreshed more than 1.5 million times per day as part of Dun & Bradstreet's commitment to provide accurate, comprehensive information to more than 150,000 customers. In Australia, Dun & Bradstreet has been operating since 1887 and in New Zealand began in Wellington in 1903 as a correspondent country.

In 2004 Dun & Bradstreet launched a consumer credit bureau, introducing competition to the industry for the first time. Since the bureau's launch, Dun & Bradstreet has consistently argued for reform of Australia's credit reporting system. Dun & Bradstreet believes that a form of comprehensive reporting is critical to improving levels of responsible lending and ensuring that credit growth, which underpins much of Australia's economic growth, is both affordable and sustainable.

Dun & Bradstreet also believes that Australia requires a financial system that responds to the ongoing development and sophistication of the global financial markets. Consumers now interact with many more credit providers than ever before and the reliance on credit as a source of economic growth is central to Australia's national economy. Comprehensive credit reporting is an important element in Australia's progress towards meeting the demands of this new reality.

This report is comprised of two parts. Part A addresses the need for Australia to shift to a comprehensive credit reporting system and Part B addresses specific clauses of the *Exposure Draft Bill*.

In total there are seven recommendations. They are:

**Recommendation 1:** *That section 115 is removed from the Exposure Draft Bill.*

**Recommendation 2:** *That section(s) 116 & 118 identify the Office of the Information Commissioner as the party responsible for conducting independent audits and reviews of data quality and security.*

**Recommendation 3:** *That section 117 is amended to differentiate between breaches that occur 'knowingly' and 'unknowingly'.*

**Recommendation 4:** *That section 119 is amended by deleting part 5 and 6 and replacing with a form of words that would make the section consistent with existing requirements. Specifically, this would allow a consumer to opt for free access to their personal credit report on multiple occasions during a twelve month period with that report to be delivered within a reasonable amount of time, but no longer than ten days. Furthermore, CRAs would retain the right to charge for access outside of this requirement.*

**Recommendation 5:** *That section 123 (3) is deleted from the Exposure Draft Bill.*

**Recommendation 6:** *That section 124 (4) is amended to define the retention period for defaults as five years from the date of default rather than date of information collection.*

**Recommendation 7:** *That section 132 (2) is amended to allow the reporting of repayment information by all credit providers.*

## PART A – THE BENEFITS OF COMPREHENSIVE CREDIT REPORTING

Credit reporting is the primary mechanism for reducing information asymmetry between a borrower and lender. This asymmetry arises when consumers hold more information on their credit performance and risk profile than the organisations from which they are seeking credit. As a result credit providers are asked to make decisions with less than complete information. Credit bureaux and credit reports overcome this dilemma by pooling credit information and making it available to authorised users, thus providing a more complete picture of a consumer's credit risk profile. Further insight is acquired through bureau expertise in the development of analytical models and tools.

The level of information asymmetry is correlated to the amount of information that can be collated by a credit report agency (CRA) and shared in credit reports. Negative credit reporting systems, those that allow the reporting of only derogatory information, produce high levels of information asymmetry while comprehensive credit reporting, allowing good credit practices to be recorded, reduces these asymmetries.

A number of consequences arise from information asymmetry. They include:

- increased default rates as consumers who represent a bad credit risk are provided with access to credit they are unable to manage
- increased prices on average as those who are a good credit risk subsidise the cost of credit for those who are a bad risk
- higher levels of financial exclusion as some consumers who represent a good credit risk are denied access to credit due to a lack of supporting independent and verifiable information – usually minorities such as women and new arrivals
- lower levels of economic growth as credit is unable to find its way to the most productive sectors of the economy.

Furthermore, information asymmetry has a significant impact on competition among credit providers, particularly within the banking sector. There is a direct but negative correlation between the level of information sharing and banking concentration[1].

While proposals to reform Australia's credit reporting system primarily relate to consumers it is important to note that small business, particularly unincorporated entities, are also beneficiaries' of reform. This arises because these entities tend to fund their business with consumer credit products, such as credit cards and overdraft facilities, reflecting the symbiotic relationship between the business entity and the owner. Therefore, improvements in the operation of consumer credit markets are an important contributor to the operation of small business credit markets[2].

Finally, credit reporting assists in the reduction of fraud, particularly identity theft. At the most basic level the simple recording of accounts opened on a credit report allows the monitoring of whether any unusual credit behaviour is occurring. At the more sophisticated level comprehensive reporting is generally accompanied by increased levels of automation that improves identity verification and data quality and matching[3].

The benefits of reducing information asymmetries in the Australian consumer credit market through a shift to comprehensive credit reporting are discussed below in more detail with specific regard to the impact on default rates, access, competition and pricing.

**Comprehensive credit reporting and default rates**

Comprehensive data has the ability to reduce default rates. The extent of the impact is correlated to the amount of information permitted in a credit reporting system and

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[1] Schutz, L, 2006, *Credit Bureaux and the Dynamics of Information Sharing in Credit Markets*, July.
[2] Turner, M, Varghese, R, Walker, P & Dusek, K, 2008, *Roadmap to reform: Lessons from around the world to guide consumer credit reporting reform in Australia,* October.
[3] Turner et. al., 2008, *Roadmap to reform: Lessons from around the world to guide consumer credit reporting reform in Australia,* October.

the level of sharing between lenders through a CRA. This point is well documented in both academic literature and real world experience.

The most commonly cited academic works on the impact of comprehensive credit reporting is by Professor John Barron of Purdue University and Professor Michael Staten of Georgetown University in the United States. One particular paper, *'The Value of Comprehensive Credit Reports: Lessons from the US Experience'*, produces findings from a series of simulations examining the link between credit availability and performance and restrictions on the reporting of credit histories.

The simulations reveal that comprehensive information, in this case the full-file model of the United States, produces a lower rate of default for all acceptance rates, excluding an acceptance rate of 100 percent. This means that regardless of the rate of acceptance adopted by a lender, the rate of consumer default is always lower with the use of comprehensive information. Figure 1 illustrates the findings.

**Figure 1**

Box 7.1: Effects of Negative-only Credit Information on Default Rates

| Target Approval Rate (%) | Default Rates | | |
|---|---|---|---|
| | Full Model (%) | Negative-only Model (%) | Percent Increase In Default Rate on Loan with Negative-only Model (%) |
| 40 | 1.08 | 2.92 | 170.4 |
| 60 | 1.90 | 3.35 | 76.3 |
| 75 | 3.04 | 4.07 | 33.9 |
| 100 | 9.31 | 9.31 | 0.0 |

*Source: US, Staten 2000.*

This particular simulation was repeated by Barron and Staten in 2007 at the request of the Australian Finance Conference (AFC). The simulation included a credit reporting model reflecting that proposed for the Australian environment, excluding repayment history. It revealed that even at the intermediate model of reporting the

default rate was 2.46 percent as opposed to the negative only model of 3.35 percent; an improvement of over 36 percent.

However, these outcomes are not limited to theoretical simulations. In Japan the introduction of comprehensive credit reporting reduced the probability of delinquencies (60+ days) by 34.1 percent for the mean loan. The Japanese experience also demonstrates that the value of more comprehensive data increases with the loan amount. It has reduced the probability of delinquency by 41.3 percent for the mean large loan[4].

In Hong Kong similar results have been evident following the introduction of comprehensive data at the recommendation of the Hong Kong Monetary Authority in 2002. In the four years to 2002, Hong Kong experienced growth in personal bankruptcy of 1,900 percent and approximately 12 percent of all bankruptcies were caused by credit card debt. Credit card write-offs stood at 13.6 percent by the end of 2002. This was significantly higher than comparable Asian nations such as Singapore and Korea, which had write-off rates of 5.5 percent and 6.1 percent respectively. Defaulting customers in Hong Kong had acquired debts up to 55 times monthly income in 2000 and 42 times monthly income in 2002.

Hong Kong Monetary Authority figures show that the two years following the shift to comprehensive credit reporting resulted in:

- credit card write-off ratios declining from 13.6% to 3.76%; and
- credit card delinquency ratios declining from 1.25% to 0.44%[5].

**Comprehensive reporting and financial inclusion**

In the same way that comprehensive credit data can be used to reduce the exposure of high risk individuals to inappropriate credit products this information can be used

[4] Turner, M (citing Waseda University), 2005, *The benefits of comprehensive credit reporting: Executive Summary,* October.
[5] Turner, M, 2005, *The benefits of comprehensive credit reporting: Executive Summary,* October.

to better identify those who are seeking credit and represent a good risk. As with minimising defaults comprehensive data provides a broader range of information on which to assess credit applications. Importantly, this information extends beyond just derogatory information to include good patterns of credit behavior. The result is improved access to mainstream credit markets for previously under-served consumers.

The Barron and Staten research of 2000 is once again the most cited piece of academic research on this issue. Its simulations illustrated that more consumers had access to credit products with the use of comprehensive data than when relying on only negative information, given the same rate of default. In other words, with no difference in the rate of default between a comprehensive and negative system a comprehensive system provided greater access to credit. This means that under a negative reporting system consumers who represent a good credit risk are being denied credit access due to a lack of information rather than the existence of derogatory information.

Taking a 3 percent target default rate as an example the simulations showed that the acceptance rate under a full-file reporting system was 74.8 percent compared to 39.8 percent in a negative only system. Put another way, the percent decrease in the number of consumers who obtained a loan at a target default rate of 3 percent in a negative only system was 46.8 percent. That is, 46.8 percent of consumers in a negative system had less access to credit than consumers assessed with full-file data even though those consumers represented the same level of risk.

Critically, the more stringent a lender is in terms of the target default rate the greater the uplift in acceptance rates. This signals that it is good risk consumers who are at greatest risk of being excluded when lenders have a lower appetite for risk. Figure 2 illustrates the findings.

**Figure 2**

Box 7.2: Effects of Negative-only Credit Information on Credit Availability

| Target Default Rate (%) | Approval Rates | | |
|---|---|---|---|
| | Full Model (%) | Negative-only Model (%) | Percent Decrease in Consumers Who Obtain a Loan with Negative-only Model (%) |
| 3 | 74.8 | 39.8 | 46.8 |
| 4 | 83.2 | 73.7 | 11.4 |
| 5 | 88.9 | 84.6 | 4.8 |
| 6 | 93.1 | 90.8 | 2.5 |
| 7 | 95.5 | 95.0 | 0.5 |
| Mean | 100.0 | 100.0 | 0.0 |

*Source: US, Staten 2000.*

The use of full-file data in this analysis should be noted. This data includes the repayment data of non-bank lenders, such as telecommunications and utilities companies, that the *Exposure Draft Bill* prohibits from being reported in Australia. The result will be to reduce the number of consumers' who represent a good credit risk from obtaining access to mainstream credit. This point is further discussed in Part 2 of this submission.

**The impact of comprehensive reporting on competition and pricing**

Banking concentration is negatively correlated with information sharing. That is, concentration is higher and therefore competition lower, in those markets where less information sharing occurs. This situation arises because smaller and / or new lenders are discouraged from entering markets where little information is available with which to assess credit risk. Larger lenders, who hold large repositories of data on their existing customer base, are able to maintain an entrenched position due to their deeper understanding of consumer credit performance.

While this negative impact on competition is greatest in markets where no information sharing occurs it is also an outcome of markets where only limited information is shared, such as in negative credit reporting systems. In this environment large lenders have access to their own repositories of predictive comprehensive data while smaller lenders are prohibited from accessing this data by laws governing information sharing. Since the ability to predict default rates directly impacts lender profitability the inability to access highly predictive comprehensive data deters new entrants[6].

This also has an impact on the price of credit. Generically this is the case because the absence of competition removes the pressure to price accordingly. More specifically, all borrowers are charged an average interest rate that reflects their pooled experience when lenders can't distinguish good borrowers from bad borrowers. This average rate is higher than warranted for good borrowers and subsequently causes some of them to exit the market. This in turn shrinks the customer base further raising the average rate charged to remaining borrowers[7]. In the case of Australia this means the overwhelming numbers of consumers, who have no derogatory information on their credit report, are paying higher prices for their credit products than necessary.

There are also considerable competitive benefits for small business borrowers. Research conducted by Dr Michael Turner of the Policy and Economic Research Council (PERC) in the United States reveals that comprehensive reporting facilitates credit scoring, which is the preferred decision-making tool for lenders assessing small business loans. Therefore, comprehensive data makes lenders, particularly larger lenders, more inclined and able to engage in small business lending than was previously the case. This in turn increases competition between lenders improving

[6] Schutz, L, 2006, *Credit Bureaux and the Dynamics of Information Sharing in Credit Markets*, July, pp. 35 – 36.
[7] Barron & Staten, The Value of Comprehensive Credit Reports: Lessons from the US Experience, pp. 4 – 5.

products and driving down prices for small business. This has a positive impact on the broader economy as small business is a key driver of economic growth[8].

[8] Turner et. al., 2008, *Roadmap to reform: Lessons from around the world to guide consumer credit reporting reform in Australia,* October.

## PART B – RESPONSE TO EXPOSURE DRAFT BILL

This section responds to specific clauses of the *Exposure Draft Bill* that Dun & Bradstreet believes will result in a less than optimal market structure or outcomes for consumers.

**Section 115 – Use or disclosure of de-identified information**

The use of de-identified information is critical to the ongoing research and development of CRA tools and services. Primarily, this data allows for modeling of credit behavior and the development of solutions that identify and manage credit risk.

Section 115 appears to permit the use of data for research related purposes but is ambiguous about the permissible outcome or purpose of that research. As a result CRAs will be confronted with a degree of uncertainty about the lawfulness of what is a regular practice.

Furthermore, existing provisions of the Privacy Act provide adequate protections for the use of credit reporting data. Adherence to these provisions would and should continue to be monitored by the government regulator, in this case the Office of the Information Commissioner.

Given the centrality of CRAs to the removal of information asymmetries in the credit assessment and management process any ambiguity about the lawfulness of such practices should be removed. Accordingly, Dun & Bradstreet believes section 115 should be removed from the *Exposure Draft Bill*.

**Recommendation 1:** *That section 115 is removed from the Exposure Draft Bill.*

**Section(s) 116 and 188 – Quality of credit reporting information and Security of credit reporting information**

Data quality and security are integral to the operations of a CRA. Indeed, since Dun & Bradstreet's introduction of competition into the credit reporting industry in 2004 both data quality and security have become points of competitive tension and advantage. In particular, data quality determines a CRA's capacity to accurately match a credit file to a consumer application and to report back the most accurate and up to date information. The accuracy of this match process and corresponding data return are clear points of competition between CRAs.

Consequently, in a competitive environment CRAs have a direct commercial interest in maintaining the highest levels of data quality and therefore are an appropriate entity to ensure the required standards are understood and adhered to through its contractual agreements with customers. The capacity of CRAs to ensure credit providers maintain high standards of quality and security is further enhanced by the proposed legislative provisions requiring them to do so – i.e. a credit provider's failure to comply with CRA directions on data quality and a subsequent failure by the CRA to act accordingly would expose both the credit provider and CRA to legislative sanctions.

However, Dun & Bradstreet acknowledges that access to large volumes of personal information impose a higher standard of responsibility upon commercial entities than may normally be the case. Accordingly, independent audits and reviews are appropriate. The current legislative regime requires such audits to be conducted by the Office of the Privacy Commissioner and Dun & Bradstreet believes that a regulator, in this case the Office of the Information Commissioner, should also have these responsibilities under the new legislation. Accordingly, the *Exposure Draft Bill* should clearly identify the Office of the Information Commissioner as the independent auditor and reviewer.

**Recommendation 2:** *That section(s) 116 & 118 identify the Office of the Information Commissioner as the party responsible for conducting independent audits and reviews of date quality and security.*

**Section 117 – False or misleading credit reporting information**

Dun & Bradstreet understands and supports the intent of section 117, which is to ensure false or misleading information does not adversely affect a consumer. However, the current provision fails to differentiate between deliberate and inadvertent or unknown disclosure of false and misleading credit reporting information. Such a distinction should be drawn to ensure deliberate and systematic breaches receive the appropriate sanctions and unknown behavior is required to be rectified as soon as practicable, including the resolution of any consumer harm, but not exposed to the same level of penalty.

**Recommendation 3:** *That section 117 is amended to differentiate between breaches that occur 'knowingly' and 'unknowingly'.*

**Section 119 – Access to credit reporting information**

Dun & Bradstreet believes these provisions make it more difficult and cumbersome for a consumer to obtain a copy of their credit report, particularly if more than one copy is sought per year. The effect of existing provisions is that a consumer may order a copy of their personal credit report on multiple occasions throughout a twelve month period without being exposed to a fee if that request is fulfilled within a ten day period.

The new provisions would limit an individual's access to their personal credit report without incurring a fee to just one occasion per year. Such an outcome is likely to limit consumers' ongoing interaction with their personal credit report and would seem contrary to efforts to improve consumer literacy about credit reports and their role in the credit process. Accordingly, Dun & Bradstreet believes these new provisions should be amended so that the intent and operation of consumer access to personal credit reports is consistent with existing provisions.

**Recommendation 4:** *That section 119 is amended by deleting part 5 and 6 and replacing with a form of words that would make the section consistent with existing requirements. Specifically, this would allow a consumer to opt for free access to their personal credit report on multiple occasions during a twelve month period with that report to be delivered within a reasonable amount of time, but no longer than ten days. Furthermore, CRAs would retain the right to charge for access outside of this requirement.*

**Section 123 (3) – Destruction of credit information**

This sub-section of section 123 prohibits the destruction of credit information by a CRA if immediately before the retention period ends there is a pending correction or dispute in relation to the information. This requirement seems unnecessary and potentially onerous from a systems development perspective in light of the fact that the information would otherwise qualify for destruction and no longer impact the consumer's credit profile. Accordingly, Dun & Bradstreet believes this sub-section should be removed.

**Recommendation 5:** *That section 123 (3) is deleted from the Exposure Draft Bill.*

**Section 124 (4) – Retention period for credit information – general**

The day on which the CRA collects the default information is unlikely to be the day on which the default occurs. Therefore, the proposed provisions would allow information to be held for five years from the date of collection rather than the date of default. Dun & Bradstreet believes that the five year period should begin from the date of default and that such an outcome would ensure fairer outcomes for consumers.

**Recommendation 6:** *That section 124 (4) is amended to define the retention period for defaults as five years from the date of default rather than date of information collection.*

**Section 132 (2) – Disclosure of credit information to a credit reporting agency**

This sub-section restricts the sharing of repayment history information to only those firms who are a licensee as defined by the *National Consumer Credit Protection Act 2009*. The effect is to exclude a large number of organisations, such as telecommunication companies and energy utilities, from fully participating in the credit reporting system.

Dun & Bradstreet believes this decision limits the capacity of the credit reporting system to meet the Government's intent to improve lending decisions. Non-bank data is extremely valuable in the credit assessment process and has been accepted as such in other jurisdictions around the world. In particular, it is recognised that non-bank data:

- is highly predictive of bank credit performance and therefore critical for effective responsible lending practices
- plays a critical role in establishing credit worthiness, thereby increasing the capacity for under-served consumers to access mainstream credit
- has an impact on collection practices – organisations prohibited from reporting the data will be at a distinct disadvantage in the payment process.

*The contribution of non-bank data to responsible lending*

Non-bank data is highly predictive of credit performance for financial service products including credit cards, personal loans and mortgages. Dun & Bradstreet research[9] illustrates that consumers who default on non-bank, low value debts (below $500) are 5.3 times more likely to default again on any other type of debt, including financial services debt. That is, they are 530 percent more likely to default on another type of debt following this first default.

[9] Dun & Bradstreet Australia. *The value of non-bank data in credit assessment practices*, 2007

Broken down the data reveals that consumers who default on utilities debt are 6.5 times more likely to default again, those who default on a telecommunications debt are 4.5 times more likely to default again and those who default on a financial services debt are 3.8 times more likely to default again. Therefore, those who default on non-bank debt are more likely to default again on any type of credit, than those who have only defaulted on a financial services obligation.

International studies have illustrated the same predictive value of non-bank credit data. A study by the Policy & Economic Research Council[10] (PERC), a not-for-profit research and policy organisation in the United States, identified that adding utility and telecommunications data to a widely used scoring model increased its predictiveness by 40 percent and 17 percent respectively. Accuracy improvements also occurred, with a 9.8 percent improvement when including utilities data and an 8.5 percent improvement when including telecommunications data. Scores specifically predicting bankruptcy improved by 14 percent and 20 percent respectively when utilities and telecommunication data is included. Importantly, the PERC findings are based on analysis which includes repayment data.

The research has important implications for responsible lending practices in Australia. Consumers who are experiencing difficulty managing their non-bank credit are far more likely to experience difficulty and stress when managing future bank commitments. Clearly, this future financial distress can be avoided for many if non-bank repayment history is available in the credit assessment process.

*The contribution of non-bank data to financial inclusion*

Financial inclusion, or the lack thereof, is growing as a global concern. Financial inclusion is broadly taken to mean access to mainstream banking products ranging from daily transaction and savings accounts through to credit products such as credit

[10] Turner, M. Political and Economic Research Council, The Brookings Institution Urban markets Initiative. *Increasing access to affordable mainstream credit using alternative data*, 2006

cards and mortgages. Studies in Australia have identified that while access to daily transactions accounts is widespread there is a significant number of people that do not have access to credit accounts, which have become integral to daily life and are critical for wealth creation.

The cost of financial exclusion for affected individuals is a failure to participate in normal social and economic life[11]. This failure results in either an inability to access credit or credit access that is limited to more costly products in fringe markets. Fringe credit products in particular can impede an individual's ability to overcome financial difficulties by further depleting their disposable income and restricting their ability to save by providing access to credit products at higher rates of interest than is available to the average consumer. One estimate is that in Australia the fringe lending market is worth $500 to $800 million per year[12]. Such an outcome has broader social welfare implications with government and non-government resources diverted in response to individual cases of financial distress rather than other social welfare issues[13].

The APEC Business Advisory Council (ABAC), of which Australia is a member, has a focus on improving financial inclusion throughout the region. ABAC considers the introduction of private sector credit reporting agencies reporting positive and comprehensive data as a critical element in improving financial inclusion (in the global credit reporting language positive credit reporting denotes categories such as repayment history while comprehensive data denotes non-bank data).

In countries such as the United States, an APEC member, financial exclusion has been linked in part to inadequate information in a consumer credit file (generally known as thin-file) on which mainstream lenders can base lending decisions. Research conducted by PERC and the Brookings Institute's Urban Market Initiative

[11] Howell & Wilson, 2005, 'Access to Consumer Credit: the Problem of Financial Exclusion in Australia and the Current Regulatory Framework'.
[12] Searle, J. BRW. *Cash in Demand.* August 23-29, 2007
[13] Howell & Wilson.

has identified that a primary measure to improve financial inclusion is the introduction of non-bank data into credit reports. In doing so, previously thin-files are populated with data that is highly predictive of all credit performance, including financial services credit products. The PERC study identified that the inclusion of utility data, including repayment data, across the entire population reduced the proportion of the population that could not be assessed with standard scoring models by 10 percent. With telecommunications data the proportion of consumers that could not be scored declined by 16 percent[14].

When applied to thin-file consumers only the improvements were far greater. The percentage of thin-file individuals that could not be scored fell from 65 percent to 4 percent with the inclusion of utility data and from 68 percent to less than one percent with the inclusion of telecommunications information. This in turn produced an increase in acceptance rates for mainstream credit. In essence, more consumers who represent a good credit risk are provided access to mainstream credit than would otherwise have been the case[15].

These are important findings in response to arguments that the inclusion of non-bank repayment data will prevent some people from accessing mainstream banking products because of late payment of unrelated credit products. While the previous section clearly identifies that non-bank repayment history does have a relationship with future financial services credit performance the research examined in this section demonstrates that the inclusion of non-bank data actually increases the number of people who can gain access to mainstream banking products.

*Excluding the reporting of non-bank repayment data will distort consumer payment practices*

[14] Turner, M. Political and Economic Research Council, The Brookings Institution Urban markets Initiative. *Increasing access to affordable mainstream credit using alternative data*, 2006
[15] Turner, M. Political and Economic Research Council, The Brookings Institution Urban markets Initiative. *Increasing access to affordable mainstream credit using alternative data*, 2006

Entities that are able to report repayment information will acquire a distinct advantage in the consumer payment priority hierarchy. Australian and international research shows that consumers prioritise the bills of those credit providers who report default and repayment history to a credit reporting agency. Those organisations that are prohibited from reporting this data will be at a significant disadvantage when seeking payment for services.

In a 2009 study conducted by Newspoll for Dun & Bradstreet[16] 57 percent of respondents said they would prioritise a bill if they were aware that late payment would be reported to a credit reporting agency and potentially negatively impact their credit profile. Furthermore, 60 percent said they would prioritise a bill if early payment could be reported to a credit reporting agency and potentially improve their credit profile. This report demonstrates that those firms that are permitted to report repayment data will have a distinct advantage when seeking to recover monies.

In the United States a similar study conducted by PERC[17] found that 50 percent of consumers would pay their non-financial credit commitments on time if those payments were reported to a credit reporting agency and could affect their credit score.

Permitting non-bank credit providers to report repayment information to credit reporting agencies presents challenges for the Government. Undoubtedly there are constituencies that are opposed to this proposal arguing that non-bank data is not relevant when assessing applications for bank credit and can disadvantage consumers for relatively small defaults or late payments.

However, research clearly demonstrates that non-bank data is highly predictive of financial services credit performance and provides important insight in the credit assessment process. As with bank data, the reporting of repayment non-bank data

[16] Dun & Bradstreet Australia. *Consumer payment priorities study*. 2009
[17] Turner, M. Political and Economic Research Council. *Credit reporting customer payment data*. 2009

provides even deeper insight. Accordingly, permitting the reporting of this data can ensure the spirit, and not just the letter, of responsible lending obligations are met while also improving access to mainstream credit for currently under-served consumers. The reporting of this data would also ensure non-bank credit providers are not disadvantaged in the payment cycle.

**Recommendation 7:** *That section 132 (2) is amended to allow the reporting of repayment information by all credit providers.*